The Weekly Snapshot

31 October 2022

ANZ Investments brings you a brief snapshot of the week in markets

Global equity markets finished mostly higher last week. Value and cyclical stocks outperformed their growth counterparts as bond yields remained elevated (albeit lower on the week), and as earnings showed some slowing in the tech sector. Meanwhile, European stocks continued their nice rebound, helped by the improving situation in British politics.

However, in Asia, share markets in China and Hong Kong fell as economic and political uncertainty remains in the wake of the National Congress of the Chinese Communist Party.

Finally, down under, both the NZX 50 and ASX 200 finished higher, recouping their prior weeks' losses.

What's happening in markets?

Offshore there was a big focus on quarterly earnings, which saw several household names report disappointing numbers that lead to significant declines in share prices over the week. The majority of the weak earnings were among technology/growth companies.

Amazon (-13%) reported weaker-than-expected earnings and revenue for the third quarter and gave disappointing guidance of between US$140 billion and $148 billion. The results don't bode well as we head into the final quarter of the year, highlighted by usually-high shopping holidays such as Halloween, Thanksgiving Day and Christmas.

Meanwhile a weak report from Alphabet (-4.8%) – parent company of Google and YouTube – and Microsoft (-2.6%) also pointed to a slowdown in the broader economy. Alphabet posted its weakest quarterly growth in nearly a decade (excluding the start of the pandemic), while Microsoft said demand for its technology slowed, resulting in its slowest quarterly revenue growth in five years.

Rounding out a challenging week for growth companies was Meta (-23.7%) – parent company of Facebook and Instagram – which reported a decline in sales for the quarter, while profits almost halved. The decline in sales comes as companies cut advertising budgets given the more uncertain outlook for the global economy.

However, there were some standouts, mostly in the value sector with economic bellwether Caterpillar (+15.5%) delivering strong earnings, and McDonald's (+7.8%), which reported same store sales growth of nearly 10%.

The contrasting results among sectors showed up in index performances for the week, with the Dow Jones Industrial Average rising nearly 6%, the S&P 500 gaining 4%, while the NASDAQ 100 rose 2.2% - a strong Friday session taking the index out of negative territory for the week.

In economic data, fears of a near-term recession abated with US third quarter GDP coming in at 2.6%, ahead of consensus. However, some survey data pointed to a possible slowdown, notably the Kansas City Fed Manufacturing Index, which fell to -22.

> ***"Indexes fell considerably for production, shipments, and new orders; however, firms still reported slight gains in employment."*** – Chad Wilkerson, VP at the Kansas City Fed.

Closer to home, Australian inflation data came in much higher than expected, with inflation rising at an annual pace of 7.3%.

What's on the calendar

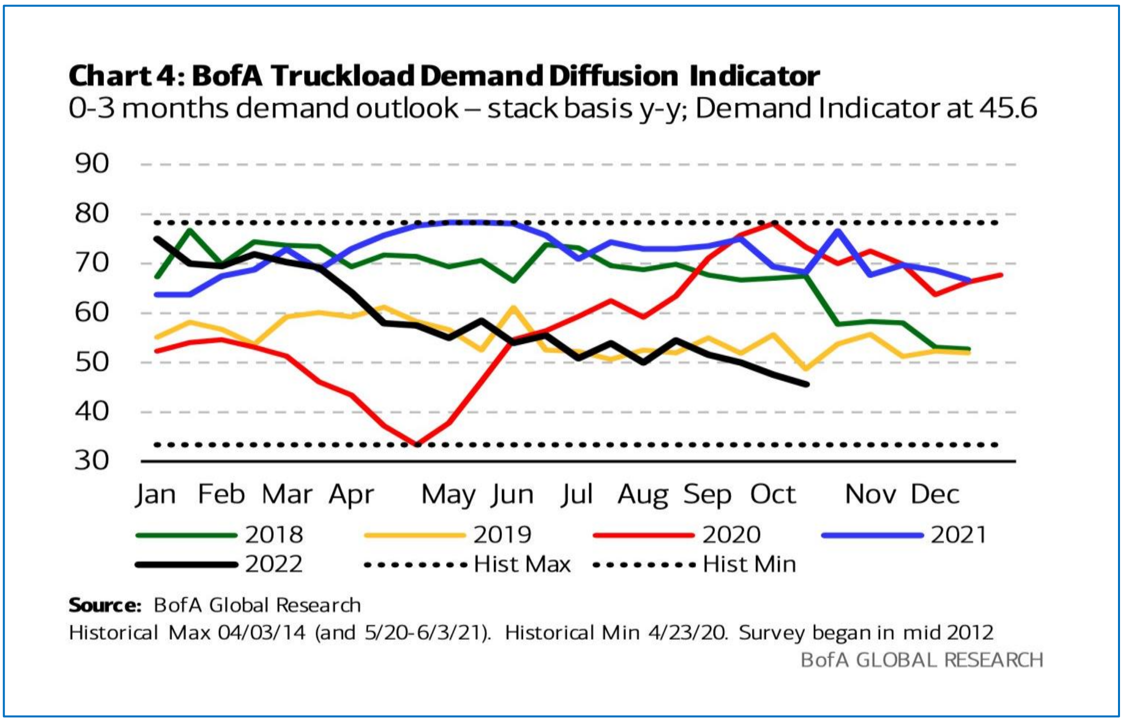
This week, all eyes will be on Wednesday's US Federal Reserve meeting, where it is expected the central bank will raise the fed funds rate by another 75 basis points. With some recent smaller-than-expected rate hikes (Bank of Canada and Reserve Bank of Australia), investors are hoping central banks have reached peak hawkishness. Any sign that the Fed may slow the pace of rate hikes would likely be a welcome relief to investors – as markets have struggled against the backdrop of higher interest rates.

In other central bank news, the Bank of England is expected to raise its policy rate by 75 basis points as inflation remains above 10%, while the Reserve Bank of Australia is expected to raise its policy rate by 25 basis points, but after a faster-than-expected inflation reading, a bigger hike is certainly not off the cards.

Labour market data is also in focus this week. In the US, Friday's employment report is expected to show the economy added about 200,000 jobs. Given the backdrop of stubbornly high inflation, a key component of the report will be wage price data. Meanwhile, in New Zealand, Q3 employment data is expected to show the labour market remains tight with unemployment near historic lows.

Chart of the week

Expected truckload demand is on the decline, which isn't a good sign as we head into the US shopping season. Perhaps this is a sign the economy is starting to cool off, which would help slow inflation.



**Source: Bank of America*

Here's what we're reading

Following on from the trucking demand chart, here's a piece that delves into the detail further - https://www.freightwaves.com/news/wall-street-turns-bearish-on-transports-after-early-misses-negative-guidance

What broke Britain? It can all be traced back to one event – Brexit - https://www.vox.com/2022/10/22/23417005/liz-truss-britain-uk-brexit-boris-johnson